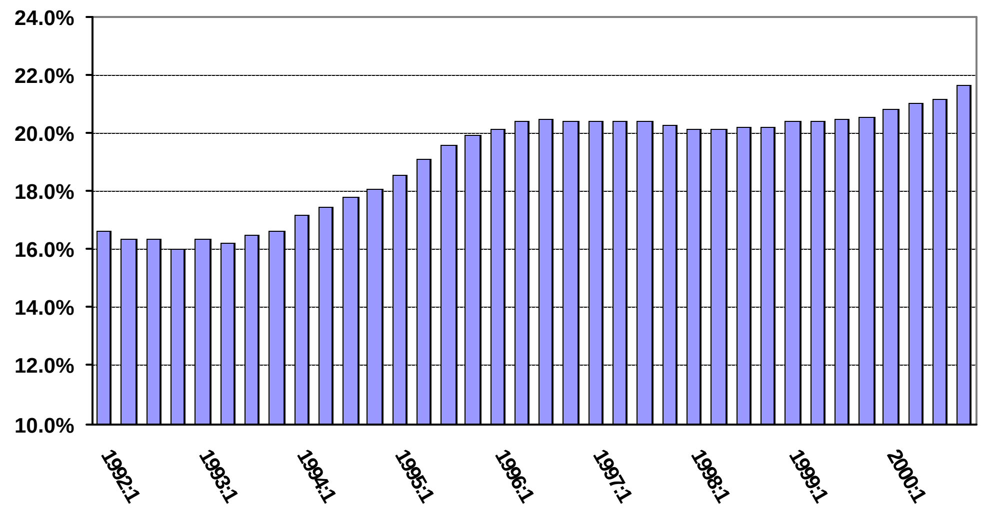
# IDAHO OUTLOOK

## NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO | DIVISION OF FINANCIAL MANAGEMENT | APRIL 2001 VOLUME XXI NO. 10


### Ratio of Consumers' Nonmortgage Debt to Disposable Income




Source: Standard & Poor's DRI

It appears that American consumers have finally started to worry about the economy. Consumers' moods began to sour this winter with the rash of layoff announcements and the ongoing stock market woes. As if Americans did not have enough to worry about, DRI's Chief Economist, David Wyss, raises the question: Can consumers pay their debts? This is not a trivial question. The average American household's non-mortgage debt is more than one-fifth its disposable income. Households now spend about 8% of their after-tax income on servicing this debt. Credit card delinquencies and defaults are at record highs. Should the economy enter a recession, would Americans be able to meet their financial obligations?

Consumers' faith in the prospering U.S. economy after the 1990-91 recession caused them to spend money faster than they earned it. In order to finance their spendthrift ways, they diverted money from savings and took on debt. The nosedive in the U.S. savings rate has been well documented. Debt expansion resulted from several factors. Initially, it was used to finance pent-up demand after the recession. But debt continued to pile on even after this demand was sated. Part of the reason for this is interest rates. In the early 1990s, debt service costs actually dropped thanks to falling interest rates. After a slow start, job growth kicked into high gear, and by the end of 1996, the economy was nearly at full employment. With jobs available for everyone, confidence soared. And people spent accordingly.

Wealth has also been a factor in the rapid rise in debt. The doubling of the stock market convinced Americans they were rich enough to spend more. And since the rising market was doing their saving for them, they felt little need to set something aside for the future.

However, most people failed to notice that wealth and debt were not evenly distributed. Although overall household wealth has climbed more rapidly than debt, the households with high debt are not usually the same as the ones with high wealth. Specifically, the bottom 90% of the population hold 70% of the total debt, but have only 28% of the non-housing assets.

Can consumers pay their debts? Heavy debt loads and lack of savings put American households in a precarious position should the economy suffer an unforeseen calamity. For example, what would happen if a continued correction of the stock market and collapse in consumer confidence caused a mild recession in 2001? One measure to look at would be charge-offs as a percent of outstanding credit card debt. The percent of charge-offs has begun to rise recently, after several years of reductions. DRI estimates that if a recession occurs, charge-offs will climb to 7.0% in 2001 and 6.8% in 2002. If there were no recession, charge-offs are anticipated at 6.1% in 2001 and 6.0% in 2002.

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# General Fund Update

As of March 31, 2001

| Revenue Source | FY01 Executive Estimate[3] ($ Millions) | DFM Predicted To Date ($ Millions) | Actual Accrued To Date ($ Millions) |
|---|---|---|---|
| Individual Income Tax | 1024.2 | 681.0 | 662.5 |
| Corporate Income Tax | 170.0 | 89.9 | 100.5 |
| Sales Tax | 658.0 | 492.6 | 485.0 |
| Product Taxes[1] | 20.7 | 15.5 | 15.5 |
| Miscellaneous | 127.0 | 86.2 | 96.2 |
| **TOTAL GENERAL FUND[2]** | **1999.8** | **1365.2** | **1359.7** |

*1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes*
*2 May not total due to rounding*
*3 Revised Estimate as of January2001*

General Fund revenue collections were $1.7 million lower than predicted in March and now stand $5.5 million below the fiscal year-to-date estimated amount. This is the third consecutive month that actual revenues have been less than expected. Each of the “big three” revenue sources (sales and income taxes) was off in March. Miscellaneous revenues offset a portion of the month’s weakness.

Individual income tax collections in March were $1.5 million lower than anticipated. Unfortunately, very weak withholding collections were masked by lower-than-expected refund payments. Filing payments were almost exactly on target. March withholding payments were $5.3 million lower than estimated, making this the worst month for withholding collections this fiscal year. Withholding was actually $1.3 million (2%) lower this March than in March 2000.

Corporate income tax collections were $0.9 million lower than expected in March. Filing collections were $2.3 million lower than expected for the month, and refunds were $0.6 million higher than projected. These two sources of weakness were partially offset by estimated payments that were $1.4 million higher than anticipated in March, and miscellaneous diversions that were $0.5 million lower than predicted.

Sales tax collections were $1.4 million lower than expected in March. This makes six of the past seven months the sales tax has come in below expectations. Given the weakness in withholding collections and the indicators from employment statistics (especially increases in weekly unemployment claims) it is unlikely this trend will change soon.

Product taxes were slightly higher than forecast for March, and now stand exactly at the predicted level for the fiscal year to date. Miscellaneous revenue was $2.0 million higher than projected for the month of March. One million dollars of this miscellaneous excess is due to insurance premium tax collections and $0.6 million is due to higher-than-anticipated interest earnings.